

JPRS 83110

22 March 1983

# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2381



FOREIGN BROADCAST INFORMATION SERVICE

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IMPORTANCE OF ESTABLISHMENT OF LIVESTOCK COMPLEXES

Tirana ZERI I POPULLIT in Albanian 25 Dec 82 p 2

[Article by Ilia Pali and Viktor Puka: "The Establishment of Livestock Complexes--A New Stage of Intensification of Livestock"]

[Text] In the execution of the tasks assigned by the Eighth Party Congress and by Comrade Enver Hoxha's recommendations for elevating livestock raising to a higher level of intensification, a number of new complexes are being built on the basis of scientific bases and with advanced technology, and are being put into utilization, for the production of meat and eggs; they signify a qualitative step toward putting our livestock raising on a new stage of intensification.

The building of these livestock complexes relies on a number of factors for the development of our economy in general and of agriculture in particular, such as: the intensification of agricultural production; the absolute supplying of the needs for bread grains; the high level of improvement of breeding in agriculture; the industrial sector which is continually being invigorated and which is in a position to produce pieces of equipment with advanced technology; the increase of by-products of the food industry; and the setting up of plants for fodder processing. Also, from the aspect of construction, the conditions have been created for rapid and less expensive constructions, mainly with prefabricated materials available in the country which satisfy all the technical requirements for good care of livestock. On this basis, the investments for the building of these complexes which represent, so to speak, the "industrialization" of the production of meat and eggs, are highly fruitful. The experience in putting these first complexes into operation not only showed their value, but also the fact that our workers and specialists are capable of executing advanced technology in livestock and poultry breeding.

The construction and industrial workers are struggling with all their forces to deliver all planned projects on schedule and with good quality. They have built, and are putting into operation, complexes for breeding livestock for meat in Velipoje, Thumane, Belsh, Spitalle and Hoxhare, two complexes for turkey processing in Durres and Berat and another complex for lamb processing in Sarande. Two complexes for the processing of beef, two others for turkey, a complex for pork processing and the station for the pork breeding

improvement will be commissioned next year. During 1983-1984, six more complexes for pork processing will be set up in Tirana, Lushnje, Vlore, Mirdite, Korce and Fier. These complexes will process meat with low fat mainly for fresh consumption.

In order to provide the market with a regular supply of eggs, in addition to the complexes built so far in Tirana and Elbasan, the new complexes built in Vlore, Shkoder, Korce, Berat and Gjirokaster have begun their production; other projects will be added to these very soon in Diber, Sarande, Fier, Lushnje and Durres. In the poultry complexes for eggs, which have been commissioned, it has been possible to obtain 200 eggs from each hen and to breed more than 93 percent of the chicks, thus properly fulfilling the economic-financial indicators.

The party has assigned the task that the investments for this purpose must be used within the shortest time possible, achieving high productivity. In implementing this task, in addition to the simplifications and facilitations of projects, carried out in cooperation with the design institutions, without damaging the advance technology, the agricultural workers are struggling to assure all the factors which lead to obtaining high yields in the products with economic effectiveness. Attention is being concentrated, first of all, on supplying food on the most scientific bases and on supplying all food articles in good quality and in quantity. The livestock meat complexes have been set up mainly on the lands obtained from the reclaiming of lands in the low coastal area which, now, have a limited fertility and are in the process of desalinization. Taking into consideration the cooperation between agriculture and livestock raising, the Institute of Soil Studies and the Fodder Station have set up systems for the improvement of lands and for the fodder structure, mainly by sowing lolium, clover, sorghum, and so forth. Along with this, we are working so that, through the improvement of the system of irrigation and of fertilizing, we can gradually proceed with the sowing of corn and alfalfa which are two basic fodder articles.

The obtaining of high indicators in meat and eggs production is closely linked with the use of fodders balanced in energy, protein, mineral substances, vitamins and so forth. Therefore, the setting up of complexes is accompanied by the setting up of fodder plants for livestock. In these past two years, fodder plants were set up in Shkoder and Durres, as well as the line for pelletization of straw in Lushnje. Also, fodder plants are being set up in Fier, Elbasan and Lushnje. Some plants and lines will also be set up in other districts. In this regard, the industrial enterprises must organize, better than until now, the work for speeding up the building of fodder plants and for improving their quality. We believe that time has come for one of the plants to specialize in the production of equipment for livestock fodder plants and for giving a new impetus to the mechanization of livestock raising in general. These plants achieve a comprehensive processing and balancing of fodder, increasing their productivity up to 30 percent. However, in this field, a further improvement of the quality of by-products of the food industry is required. Many of them do not presently fulfill technological requirements in regard to the content of moisture, proteins, fats and pulp.

In most cases, the sunflower mash is delivered without being decorticated, cotton wastes are delivered without removing the fluff, fish flour has a high content of moisture and of salt, and so forth. In regard to these problems resulting from the industrialization of livestock fodder production the food enterprises must radically improve their work. The agricultural units must show greater concern and more responsibility for the production of soya, because the lands in which soya is sown have the possibility for yielding 15 quintals of soya per hectare and this must be overfulfilled by all means; this figure has been achieved by some units or special brigades.

The scheduled indicators of livestock complexes are higher than those of the usual increases; this requires a greater work to assure breeding of animals with a higher level of productivity. The possibilities exist for agricultural units, on the basis of scientific work, to ensure that calves of 4-5 months reach a weight of 90 kilograms and that lambs weigh 15 kilograms at the time of their separation from the mother sheep. This is the elementary condition for breeding calves and lambs with high productivity indicators. Therefore, the agricultural workers of Kruje, Elbasan and of other districts must show greater concern for breeding calves for complexes. The Institute of Livestock Research must attach greater importance to this problem. Great demands are also being made on the pig and poultry complexes.

In light of the fruitful results of the execution of technology in these complexes, special elements of this technology are being executed in the agricultural units. Thus, at the "29 November" agricultural enterprise in Lushnje, by applying advanced technology to the scheduled feeding of pigs, it has been possible, from the first year, to obtain more than 10-11 kilograms of meat from each sow, thus, reducing costs in a noticeable manner. This technology is being executed in the other units. Thus, the setting up of livestock complexes with advanced technology, as a new stage of the intensification of livestock raising, is also serving as a base for the further development of the entire livestock industry in our country.

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MARKET SEGMENTATION STRATEGY CONCEPT DISCUSSED

Prague PODNIKOVA ORGANIZACE in Czech No 12, 1982 pp 483-486

[Article by Ph Dr Engr Jaroslav Smrcka, CSc.: "Market Segmentation Organization"]

[Text] Shortcomings found in many marketing organizations are a result of obsolete production-oriented marketing system of enterprises. This "production-oriented" marketing system has its roots in excess demand. Under such [excess demand] assumption, which prevailed in our enterprises for many years and still can be found in many of them, the prime attention by the top management, controlling agencies, as well as other agencies and organizations was devoted to problems of production; rationalization of production, and increase in capacity. Under these conditions, the function of marketing was reduced to product distribution or even to ensuring some "priority" tasks or another, as determined by societal interests where deciding on priorities may be a rather subjective exercise of judgment.

In many sectors, this position is now beginning to change in management and in organization of production as well as some other areas, including marketing. Questions of strategy are assuming growing importance, particularly in the innovation of products for which new customers must be found and, conversely, the production oriented to the changing demands by consumers and participating enterprises.

It is curious to note that enterprises, even while they are becoming involved in situations requiring a switch to active marketing strategy, continue to hang on their past structures which had been established under the pressures of excess demand and passive marketing. Even if some enterprises have been expanding their marketing functions (for example, by systematic advertising, or by offering sales catalogues), these functions are holdovers from the traditional organizational structures and a superseded marketing concept.

Sometimes such structure still continues to accommodate the requirement, but an effective marketing strategy should continue to adjust to specific needs of a given sector or enterprise and its relations either to the consumers or to relations and conditions extant in the sphere in which the enterprise products are being used.

## Purpose of Marketing Strategy

Effective marketing strategy can only be organized when the superfluous and overlapping efforts are minimal and individual activities are coordinated toward organization objectives. Main premises for achieving such goals are:

- a continuous development of specialists,
- ensurance that all important functions are carried out,
- achievement of internal and external coordination,
- definition of line and staff jurisdictions and responsibilities, and
- concentration of time and management on significant problems.

## Definition of Line and Staff Jurisdiction and Responsibility

Basis of the division between line and staff are their respective responsibilities and jurisdictions. Line jurisdiction is the right to issue instructions and require their implementation. Staff jurisdiction is the right to develop recommendations, analyze and provide the line supervisors with information needed for decision-making. Each supervisor must be aware of his rights and responsibilities in order to prevent friction. When a staff manager starts issuing instructions which are the prerogative of a line supervisor it results in dual supervision. When subordinates start receiving orders from both line and staff managers, they become confused and cannot work effectively.

The relations between the line and staff are not always clearcut. Definition of line and staff and the assignment of corresponding jurisdiction and responsibility depends on the conception of marketing; it depends on what is considered to be the main and what is the secondary goal of marketing. The main goal of marketing could, for example, be defined as:

1. Fulfillment of the marketing plan,
2. Satisfaction of the consumer needs,
3. Management of relations between production and consumption,
4. Sales of goods to customers,
5. Balancing the enterprise potential against the existing and potential needs of the society.

Division of departments into line and staff reflects the differences in the character of marketing tasks. It depends on how complicated and how diverse are the products and on the number and type of customers. Based on the marketing management concept, the extent of the line and staff is given by the following factors:



- extent and character of the decision-making by managers,
- information needed for decision-making,
- relative importance of individual marketing activities,
- relations between marketing activities (within the framework of departments, between the marketing departments and between the marketing departments and other enterprise departments, and between the marketing departments and consumers).

#### Factors Affecting Differentiated Strategies by Marketing Departments

The organization structure of the marketing departments must reflect the internal and external conditions. These conditions form certain constraints which must not be ignored. Of the internal constraints, the product attributes and the production technology are the most significant. If the products are heterogeneous, then this forms a basis for differentiation not only with respect to production but the types of customers who buy the product as well. Marketing as a link between the production and the consumer is under a dual pressure. The specificity of the production and of the product exert a pull in one direction while customer demands may be pulling in another.

The differences between the products, which generally impact on marketing strategies and, consequently, on departmental organization, are:

- product durability,
- technical complexity,
- degree of standardization,
- relations between product and services,
- mass or specialized production,
- transportation and storage costs,
- speed and extent of product innovation and product technology, and
- costs of investment.

The differences in consumer demand are manifest as follows:

- in a number of customers,
- in quality, service, quantity, appointment, packaging, transportation and similar requirements,
- in seasonal fluctuations, and
- in balance between the supply and demand.

Based on the effects of the internal environment (mainly of production) and external environment (primarily the requirements of the most important customers), the marketing strategy must be geared toward making the communication lines short, brief, and concise and decisions made with expertise at the lowest possible management levels.

The organization of the marketing departments also depends on the overall kind of enterprise management and the inclusion of marketing into other management functions.

The marketing strategy must be understood as an interface of production with other enterprise activities on the one hand and the customer requirements and marketing management on the other. Each enterprise acts in specific conditions. This specificity is given by the type of internal and external system structures. That is why marketing strategy cannot be understood as a mechanical application of a model organization design. Actual conditions are increasingly dynamic and change frequently. That is why we cannot have a mechanistic and static marketing strategy.

#### Process of Arriving at a Marketing Strategy

Only seldom do we have to start a marketing strategy "from scratch." In most cases we already have a basic structure on which we can build. Even so, it offers certain advantages to proceed as if we were organizing a new one. The process of organizing a marketing structure can be divided into the following steps:

- establishing clear objectives which the marketing strategy is to achieve,
- determining which functions will be required to achieve those objectives,
- assigning the functions to individual departments,
- assigning personnel to individual functions,
- coordination of activities and follow-up controls on objectives.

#### Objectives

The first task is to establish clearly the objectives to be achieved. It is the top management which outlines the overall enterprise objectives. The marketing managers then derive from them their own objectives.

Marketing executives generally define the departmental objectives as a fulfillment of required specific tasks such as achievement of planned profitability, increased sales, etc. However, such definition of objectives is much too general for effective functioning of the individual marketing departments and individuals involved. The infrequently defined marketing objectives must be expressed in terms of specific tasks. Each work unit must have its short term tasks explained so that the individuals know where to concentrate their efforts.

Breakdown of the more general overall marketing objectives requires time and effort on the part of management. However, the payback comes in the form of a more effective work of the individuals who do not have to lose any time in duplications or in doing a less useful work.

Each work unit should have its specific short term objectives. As long as the changes are not extensive, there is no need to make organizational changes. However, when there is a change in the requirements structure, whether coming from the production or arising out of demand, then the strategy may have to be reexamined. Changes in objectives (reflecting demand and formulating the manner of its satisfaction) usually result in changes of strategy. Marketing objectives must be based primarily on the consumer demand, not on the interests of the production. On this basis marketing becomes an intermediary link. Nevertheless, we cannot consider marketing to be an "interpreter" of the requirements of production or of the consumer interests. Production organizations are established to satisfy the needs of society. These needs are thus outside of the enterprise. Still it is not sufficient only to transform the consumer needs into marketing objectives. These objectives link the existing and potential needs on the one hand and the possibility of satisfying them on the other.

Up to now the overall effectiveness of the work results of the enterprise has mostly been decided by its production. Overall production volumes, production structure, and product costs were dependent primarily on the production capacity. The crux of the management was production management. Increases of production capacity, rationalization of production, and technical innovations were the interest centers of the enterprise management. Under these conditions, marketing was working closely with production or, possibly, with production and technology (see Fig. 1). The objectives of marketing under these conditions were basically reduced to selling all that was produced. As the imbalance between the production potential and demand was growing, instruments were being developed to ensure that the socially more significant tasks of the consumer be satisfied (i.e., balancing inventories). However, marketing was unable to play an active role in the sense of fully satisfying the demand.

Currently the concept of marketing aimed at satisfying the needs of the society in its true sense is increasingly coming to the fore, that is to say, there is reorientation toward "activist" production in terms of volume, structure, quality, etc. Marketing is playing a similarly active role in its relation to planning, design, and enterprise technology (See Fig. 2).

Under these conditions it is necessary to actively find out the needs of the consumers, analyze possible changes in demand and provide a lead-time for current as well as future production. These demands would then be reflected in the objectives of the marketing which then becomes an equal partner of the production and other work areas of the enterprise.

#### Establishing Marketing Departments

Jurisdictions and responsibilities defining the individual functions have to be classified and grouped into departments based on the following:

- similarity of function
- similarity of required qualifications
- importance of the function
- frequency of the work to be performed.

The basic question in establishing a department is whether to concentrate similar or linking functions into one department. Both have their advantages and disadvantages and it depends on the specific conditions, tasks, and objectives which is the more effective one. Concentration of similar functions in one department would be more advantageous when the functions are not too specialized and the relations between the functions are not too complicated. Individuals who have the most frequent and important contacts should be as close to each other as possible—organizationally as well as physically.

Particular attention should be given to key activities on which the marketing results depend. Key activities should be organizationally separated from auxiliary and secondary activities. Another question is the organization of activities common for several marketing functions (for example, transportation, packaging, trade and technical services, etc.). They are usually concentrated into individual departments but their relations to department responsible for main marketing activities must be well coordinated.

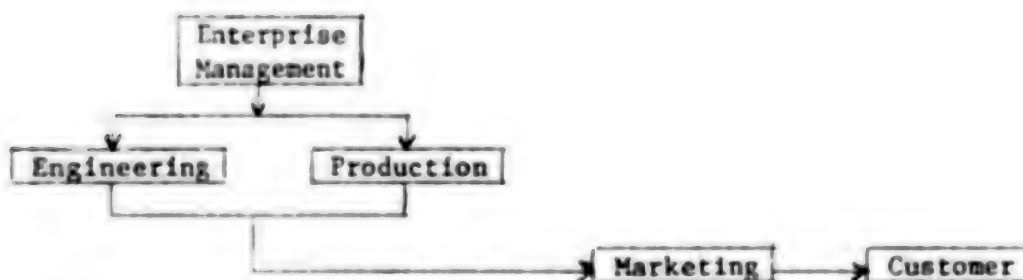


Fig. 1--Schematic of production-oriented marketing

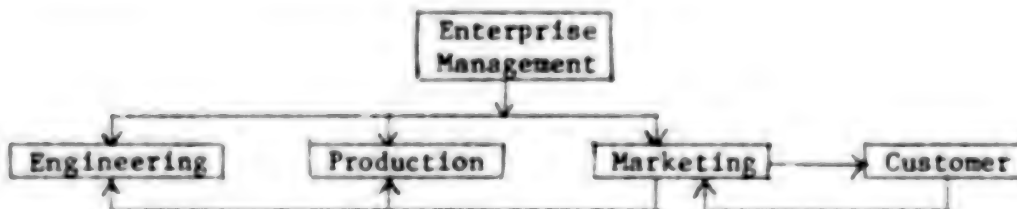


Fig. 2--Schematic of customer-oriented marketing

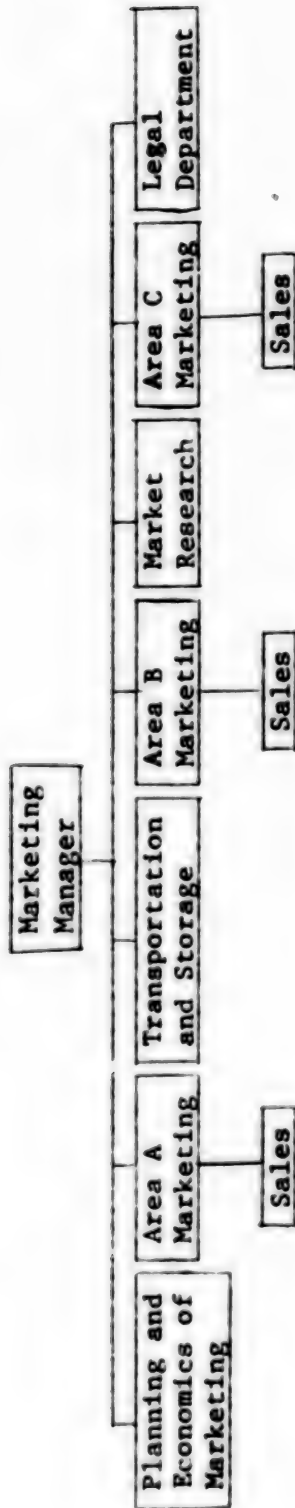


Fig. 3--Schematic of geographic marketing segmentation

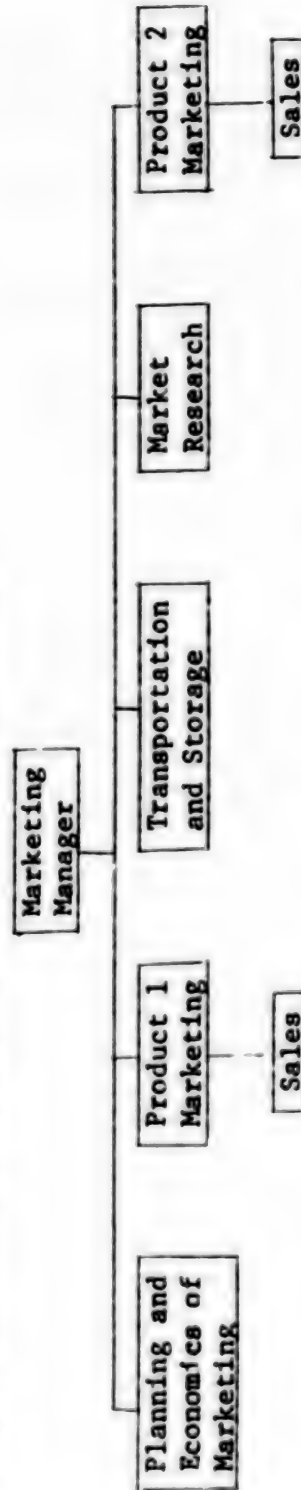


Fig. 4--Schematic of segmentation by product attributes with retention of joint staff services.



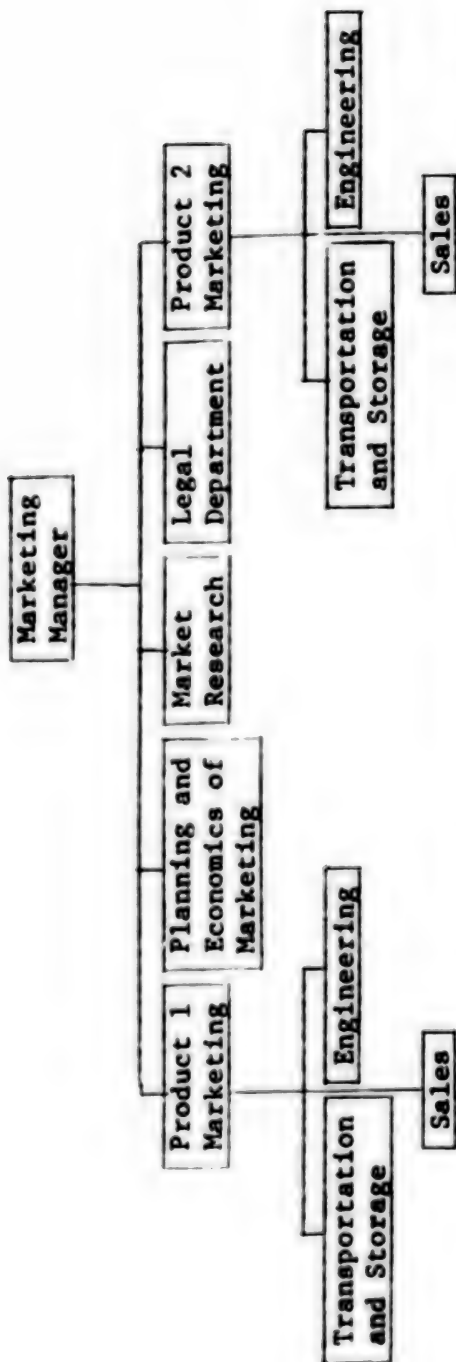


Fig. 5--Schematic of segmentation by product attributes with retention of some duplicate staff services

## Segmentation of Line Marketing Departments

In smaller marketing organizations there is little problem with the determination of its main (line) activities. They are usually grouped in one department. As the size and complexity grow, modifications have to be introduced to enable a rational handling of the market problems as well as the management of marketing activities. Alone the increase in the number of marketing personnel creates an excessive load on the management. Each supervisor can only manage effectively a limited number of personnel (usually not more than 6 or 8). Even so, the increase in the number of individuals of itself is not the main reason for an organizational change. The manageability of a department depends greatly on the diversity of activities and their inter-relationships. A manager can usually supervise a larger number of employees in a department with similar activities and a small number of relationships. In such case, the need for coordination and other management functions in terms of time is less. As the number of different activities and the inter-relationships increase, to the extent that the manager is unable to oversee them, he loses control of the workload, makes erroneous decisions, and is signaling a need for reorganization.

Basically, there are three types of market segmentation:

- geographic segmentation
- segmentation by product attributes
- segmentation by type of customer/distribution net

### Geographic Segmentation

Geographic segmentation is appropriate when the enterprise is selling in several geographic areas and the customers in those areas have different needs. Conditions are analogous when there are similar marketing problems in the individual regions (for example, specific technical requirements in each of the areas). A schematic of organization of geographic segmentation is shown in Fig. 3.

A significant reason for geographic segmentation is the expected expansion into new geographic areas. An introduction of products into new markets usually requires different approaches than sales in stable markets. The management has to pay closer attention to the new marketing section formed for this purpose and create conditions for cooperation with the other sections.

Creation of new sections organized along geographic lines is a simple method of maintaining the management load within reasonable limits. Initially, geographic units are usually based on larger territorial areas. If the situation warrants, they are later divided into smaller groupings such as by oblast, kraj, or okres.

Using this type of organization enables a rapid reaction to local problems with attendant knowledge of the situation. The main advantage is the gradual

build-up of customer trust, establishment of personal contacts, and the capability of providing (region) specific services. The main disadvantage is the complicated coordination of separate marketing sections and imbalanced load of marketing personnel with uneven development of customer needs in the various geographic areas.

#### Segmentation by Product Attributes

Segmentation by product attributes is establishment of units according to the product type. Each section is responsible for marketing a specific product or group of products. Some enterprises manufacture products with considerable technical differences which require specialized knowledge. Schematics are shown in Fig. 4 and 5. These illustrations show two simplified ways of joining the line and staff sections. In Fig. 4, all staff sections provide services for both line units, while Fig. 5 shows the staff sections joined with the line units so that each product group has its own separate staff. The second type organization is less frequent. It is advantageous in situations with considerable diversity of technical requirements in sales and services. The main disadvantage of the second type arrangement is the need to maintain two staff sections.

The decision to use this type of segmentation should derive from the question whether the advantages of product specialization exceed the costs of maintaining dual services. If the answer is negative then another arrangement should be made. The advantages which accrue from the creation of specialized marketing sections and staffs are considerable in case of technically complicated products being sold to diverse customers.

#### Segmentation According to Type of Customer or Distribution Net

This segmentation is appropriate when identical or considerably similar products are being sold to diverse type of customers with different requirements. Schematic drawings see Fig. 6 and 7.

A certain product, for example, is being used in the construction, mining, and electronic industry. In each of these sectors it is being used for a different purpose. The customer-enterprises not only have specific requirements as to the variation in type, but different requirements as to quality in different seasons of the year, etc.

Segmentation by distribution net represents a variant of the segmentation by the type of customer. It is advantageous when distribution problems arise. Sometimes, for example, a special type packaging is required for foreign trade. Similar problems can arise relative to delivery volumes, order completion, transportation, market research, etc. In such cases it might be preferable to use the sales division according to distribution net or other criteria.

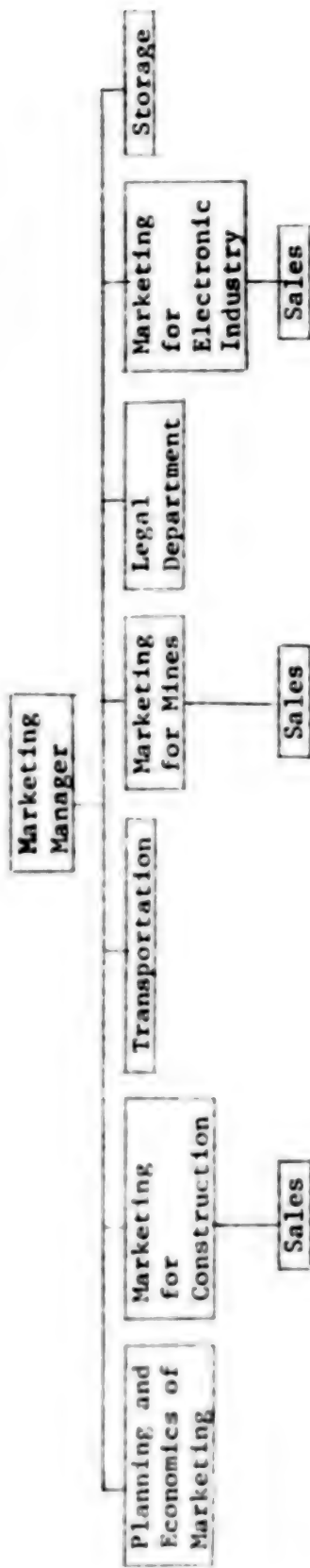


Fig. 6--Schematic of market segmentation according to type of customer

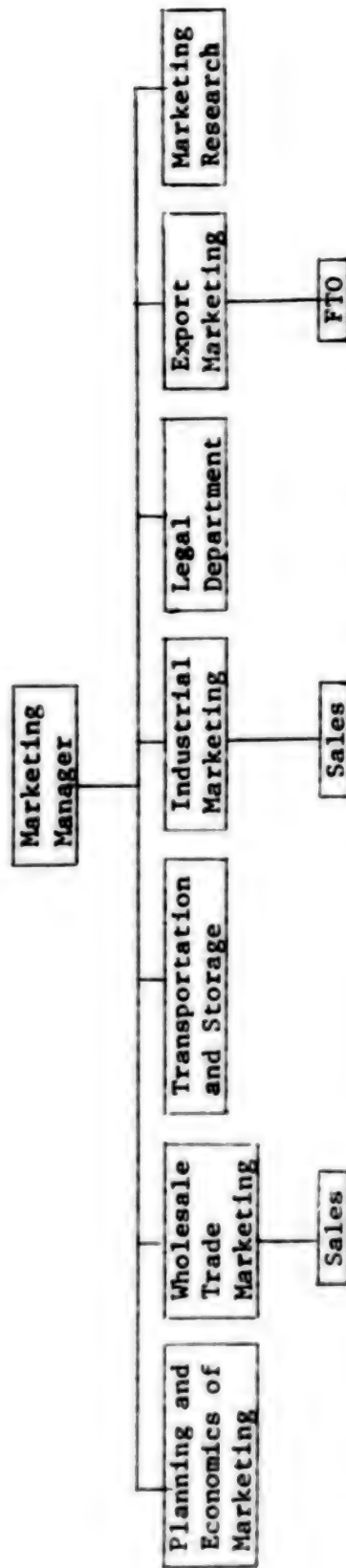


Fig. 7--Schematic of market segmentation according to distribution net

### Segmentation By More Than One Category

This type segmentation is more common in practice than division by just one type. Each category represents a given type of specialization. It always depends on specific conditions which criterion or a combination of categories is the most advantageous. Some large enterprises, for example, use the geographic segmentation and within it the division according to the product attributes. Other enterprises use the basic division by the product attributes and then a secondary segmentation by the type of customer. It is important to evaluate which of the categories provides for the most differentiated market segmentation. This category then becomes the primary division. It is also important to weigh the amount of specialization. The more specialized the unit, the greater the amount of information and specific knowledgability in a limited area of activity. Although this does increase the demand on the management, particularly in the coordination of specialized activities.

### Conclusion

In this time and age, the need to react more flexibly to the customer's demands and be involved in active marketing is increasing constantly. The basic condition for effective marketing is a rational organizational arrangement. More attention must be given to management, coordination, and control of marketing activities. Marketing must be organized in such a way as to afford marketing employees to devote maximum time and effort to critical activities.



# WORLD ECONOMIC RECESSION, PERSPECTIVES

Budapest NEPSZABADSAG in Hungarian 16 Feb 83 p 10

[Article by Andras Raba, deputy director of the Business Cycle and Market Research Institute: "World Economic Processes and Prospects"]

[Text] The concept of "economic recession" has many different meanings in economic literature and in everyday life. I now apply this concept to the phenomenon, observable worldwide, that economic activity has slowed down, is stagnating or has fallen back, and the living standard of wide population strata is declining.

## Phenomena

This is the first time since World War II that production and consumption, in absolute or relative terms, are declining on every continent, in every geographic region, in the overwhelming majority of the countries. This decline --partially for common reasons, and partially for specific ones--affects countries at different levels of economic development, different in size, and different in their social systems. A new phenomenon is that the indebtedness of the state treasuries and enterprises--in developed, moderately developed, and developing countries alike--has assumed proportions that is jeopardizing the continuity of economic development. World trade has been stagnating the third year in succession. In the developed capitalist countries, unemployment has assumed proportions reminiscent of the 1930's. Investment activity has declined almost everywhere. The price level of raw materials has been declining during the past 1.5 to 2 years, and even petroleum is no exception in this respect. An entire series of developing and moderately developed countries have become insolvent and have requested a rescheduling of their debts.

Naturally, the situation of individual countries, industries and activities differs considerably. In Japan the worsening of the situation "merely" means that the rate of economic growth has slowed down to between 3 and 4 percent, about half its previous level. The most pressing problem is the stagnation or decline of production in West Germany, the United Kingdom and the Netherlands; the balance-of-payments deficit in France; the budgetary deficit in Italy, Belgium and Denmark; inflation in southern and northern Europe; and unemployment everywhere. In the United States, swelling government expenditures, especially for arms, have created a serious budgetary deficit; the credit market is too tight; and the persistently high interest rates have led to a protracted recession.

The steel industry's situation is serious worldwide: declining prices, low capacity factors, trade wars, and compromise agreements between the principal exporters and importers. The aluminum market has been weak for years, despite production cutbacks and postponement of new capacities. In the chemical industry --notably in the petrochemical sector and in plastics production--the demand is declining and prices are dropping. In the textile and clothing industry there are more producers and exporters, and market competition is especially intensive. In all industries and in engineering in particular, the manufacturers of modern products that are technically advanced enjoy an advantage in the markets, especially if they provide suitable services and are flexible.

The foreign-exchange earnings and foreign-currency reserves of the overwhelming majority of developing countries have been sharply reduced by the declining demand in their principal export markets and by falling raw-material prices. Many of them are able to weather their balance-of-trade and budgetary deficits only with substantial international monetary assistance and through the forced curtailment of their investment and consumption. A few oil-producing countries, which earlier had profited greatly from the oil price shocks, are no exceptions. Some of these countries had used a substantial proportion of their foreign borrowing and domestic savings not for the modernization of their productive resources, but for prestige consumption and investments of dubious economic value. The worsening external market conditions, in combination with the socioeconomic backwardness and with the negative effects of the obsolete system of economic management, are threatening political upheavals in several developing countries.

In the smaller CEMA countries the deceleration of their economic development and the rising burden of servicing their foreign debt have been caused--to an extent that is by no means uniform, in accordance with their different specific conditions--by many factors that are mutually interwoven. The manpower and capacity reserves of their economic development were gradually becoming exhausted already in the 1960's. They were forced to base their growth path on the acceleration of technical development and of the rise of productivity, and on the wider use of market-feedback and incentive systems. The introduction of suitable economic reforms seemed desirable. Such a reform was introduced in Hungary. In the 1970's, the smaller CEMA countries believed that the increasing use of foreign resources, of commercial credits and bank loans, would unquestionably enhance the modernization of their economies and the maintenance of their rates of economic growth. International detente and the abundant supply of international credit favored their efforts. Western commercial banks, and in many instances the Western governments themselves, offered credits in order to expand their markets.

#### Unfavorable Circumstances

The situation of the borrowing CEMA countries was made more difficult by numerous circumstances, partially in a manner that could not have been foreseen. In a domestic environment that had been protected from competition and was accustomed to more "convenient" marketing conditions, the application of Western technologies and the efforts to produce new and marketable products were only moderately successful. Domestic or CEMA regional cooperation among enterprises, their "vertical" cooperation, was neither adequate nor sufficiently flexible to meet the requirements of competition in capitalist markets. Thus the import demand for raw materials, semifinished products and parts needed to operate the export

capacities and for current production increased by more than had been planned. To this were added the worldwide recession that began in the late 1970's and has dragged on for years, the stagnation of world-market demand and its decline in some sectors. As marginal exporters and importers specializing mostly in traditional industrial goods and hamstrung also by politically motivated discrimination, the socialist countries were affected by all this more severely than the other countries. If we add to this also the high level of interest rates--i.e., the "upward revaluation" of the foreign debts--it becomes quite obvious how difficult are the conditions under which the socialist countries must find a way out of this situation. Nor can we disregard the fact that also the conditions of economic cooperation among the CEMA countries have become harder, shortages have not ceased, the growth of the production rates of sources of energy and of raw materials has slowed down, and the terms of trade for energy importers have worsened.

Let us disregard for the time being the national or sector-related peculiarities and let us focus our attention on the principal processes underlying the superficial phenomena of world economic recession.

A principal characteristic of the past decade is that in most countries consumption or domestic spending increased at a faster rate than production. This difference in the real sphere was bridged in the monetary sphere: by issuing more money, with more credits and price increases. Inflation, which had also other components, intensified and was fueled further by the two oil price shocks. In addition, the energy-importing countries suffered a considerable worsening of their terms of trade; their current accounts turned to a deficit or their previous deficits increased.

A change had to be made in economic policy, and it became unambiguously clear that demand had to be curbed. In most developed capitalist countries, this curtailment of the demand was too successful. Millions of people lost their jobs, thousands of companies went into bankruptcy, and the existence of hundreds and thousands of small businesses was in jeopardy. Partially as a result of its purchasing power's relative decline and partially because of the high interest rates, the population deferred its investment (in homes, cars, and durable consumer goods) and cut its current expenditures. Due to the relative or absolute decline of domestic and foreign demand, and because money became more expensive, businesses partially deferred and partially redirected their investment to areas where it served primarily to rationalize and modernize production and to save labor, instead of creating new jobs. This applies to Western Europe in particular. Because of the recession, the governments lost a proportion of their tax revenues but, yielding to social pressure, did not cut back their social expenditures or cut them back only partially. Moreover, the United States and several other countries were unwilling to refrain from increasing their expenditures on arms. Thus the budgetary deficits assumed exceptionally large proportions and, to service the national debt, the governments have been forced to borrow in the financial markets.

The way out from this situation depends to a large extent on whether the investment climate improves, and when will the large-scale expansion of private fixed capital begin. However, a peculiar contradiction has developed between curtailed purchasing power and "deferred" investment demand. On the one hand, the investment programs and needs are accumulating, for example: renewal of the product structure, diversification of energy production and rationalization of its consumption, regional regrouping of a proportion of the production capacities,

etc. On the other hand, the propensity to invest is declining or dormant, financing is not available and expensive, not to mention the investment risk due to the present depressed state of the international markets.

#### Search for a Solution

All these circumstances jointly have led to the formation and intensification of recessionary phenomena, to the international spreading of the recession and, in international economic relations, to the increased application of the traditional and "refined" forms of protectionism.

Throughout the world, researchers, economic policymakers and businessmen are debating and seeking the way out from this difficult situation that best meets the local conditions, and the instruments that can be used for this purpose. There are more questions than answers regarding the prospects of the recovery that will follow the recession in the industrial capitalist countries that provide the bulk of world trade and world production:

--How can unemployment be reduced, without the threat of rekindling the inflation that is now subsiding?

--Can the corporations' willingness to invest be increased under the still high real interest rates and considerable uncertainty of a return on investment?

--Will the forced cuts in budgetary spending cause a decline of total demand?

--Can the population's purchasing power be maintained amidst stagnating real wages, unemployment, shorter workweeks and, in some countries, cuts in social expenditures?

--Is it possible to expand export and increase market share amidst declining world-market demand and spreading protectionism?

Everywhere the answers to these difficult questions depend on the balance of power in the given country, on the economic-policy ideology and practice of the political parties that happen to be in power. The recession reduces the amount of national income, or additional national income, available for allocation. In the end the governments must adopt a standpoint or reach a compromise on the extent to which the burdens of economic recession are to be borne by the state budget, the enterprises and the workers. These decisions must be made from time to time, and their consequences affect economic activity, development of the business cycle, the incomes of certain population strata, and international competitiveness.

#### Role of Adjustment

How much leeway international interdependence and relative dependence on foreign markets allow a small country in making sovereign economic-policy decisions is the subject of debate and experimentation. International experience is very edifying in this respect. Although no two models are exactly alike, models of adjustment and development that are relatively successful in the long run are to be found among countries that maintain close links with the world and utilize the environment of competition. But not even these countries are

immune from the danger of disequilibrium, and from the costs of temporary protective measures that are unavoidable when there is disequilibrium. However, the majority of their enterprises regenerate and change their production structure, in order to survive.

Under difficult conditions similar to the present ones, the speed of adjustment becomes increasingly important. Innovation, renewal of the product structure, ever wider application of new technology and of electronics in particular, and cost minimization are in the forefront of attention. Ever-newer forms and more flexible methods of the productive factors' international combination evolve. This process necessarily leads to adjustment, to the decline of the enterprises and countries that are unable to keep pace, and to gains for the products that prove to be competitive.

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CSO: 250/138



STORIES ON SMALL BUSINESS FAILURES

Budapest NEPSZAVA in Hungarian 11 Feb 83 p 4

[Interviews by Zsuzsa Gal: "Entrepreneurs Who Have Failed"]

[Text] I am seeking those who have failed. The ones who, confident in their own entrepreneurial ability, had bid with determination to win the right to manage a business under contract, and then--perhaps only a few months later--went bankrupt. There are several hundred of them--about one-tenth of the nearly 6000 contracts concluded so far have been canceled--and yet they are hard to find.

The enterprises readily give me the lists of names and addresses. As a rule, the failed entrepreneurs no longer work for their enterprises, and there is no record of whether they are employed, and where. I ring doorbells. Some do not even open the door, others beg me not to write about them. Perhaps they have much to conceal; some of them wanted to get rich by fraud. In the end I was able to interview only those who did not terminate their employment with their enterprise.

Four Million Was Too Much

Mrs Istvan Budai concluded a contract with the East Pest Catering Industry Enterprise to manage an espresso that provides also music. Now she is an employee in another contract-managed unit of the same enterprise. At her new place of employment on Szazados Road, she said the following.

[Answer] I have 15 years of experience in this trade. I was confident that I would be able to boost the espresso's turnover. I was the first one to get a business for much more than its asking price. It was advertised for 1.5 million forints, and I got it for 4.0 million. This caused quite a sensation at that time. With my husband, who also works in the catering industry, we worked a hell of a lot. At first we were open from 9 am to 4 am. But then we started to open later and later, and finally only in the afternoon. But even so, the workload was too much. My father died, my husband broke his arm, and I got a nervous breakdown.

[Question] Will you ever try again?

[Answer] I would bid again if I had the money for the deposit. My husband tried in early February, but he dropped out of the bidding. The business would have been the snack bar at the Lukacs Swimming Pool. In the end it went for twice the asking price.

[Question] So the lesson you have drawn is that you have to bid more carefully?

[Answer] All I have to say about this is that the espresso for which I had bid 4.0 million was contracted the second time for 2.7 million. The espresso is going well, but 4.0 million was just too much.

Ede Beres likewise has 15 years of experience in the catering industry. Having failed as a contract manager, he is now working as a waiter in a restaurant with strict accounting. He had this to say about his experience as an entrepreneur:

[Answer] I bid for a small restaurant on Majakowszki Street. I am fond of that location. I was born there, and we also had our wedding reception there. Everything would have been all right had not the police banned the nighttime cardroom. As long as it was open, I was able to pay the monthly stipulated sum of 90,000 forints plus 50,000 forints in wages. When I had to stop the card games, I opened a disco. The residents complained about the noise, and I could keep open only until 10 pm. But by then many other discos had opened, and customers came to me only on weekends. I rented two arcade-game machines, but that attracted only kids. I was unable to pay and asked for an extension.

[Question] You say you managed a small restaurant. Would it not have been possible to earn a living simply by maintaining a good kitchen and serving good meals?

[Answer] I had high hopes for the turnover in meals. I traveled to the other end of the country for tripe, but lost out on it because they charged me 72 forints a kilogram. I even undertook to serve enterprise-subsidized meals for employees, just to attain a higher turnover. But I also wanted to utilize the slack hours in the afternoon and at night. At a daily turnover of 7,500 forints, I just broke even. While the cardroom was open, my daily turnover was around 12,000 forints.

#### Bidding Like Horseracing

[Question] Did you not make any calculations before you sat down to bid?

[Answer] Yes, I did. The restaurant was advertised for 1.37 million forints. I calculated that I could bid as high as 2.1 million. Instead, I went as high as 3.0 million. That was a mistake. Bidding is like horseracing, you get carried away. Now I owe the enterprise 450,000 forints. But I am confident they will cancel a part of my debt, because it is not my fault that the cardroom was banned. I will pay what the court decides in the end.

Ede Beres had managed the small restaurant from December 1980 until June 1981, for a total of 7 months. During this period, he paid the stipulated amount only for two months. We asked Dr Tamas Schagrin, chief of the Legal Department at the Ministry of Domestic Trade, to comment on this.

[Answer] In such cases not only the entrepreneur, but also the enterprise is at fault. If some one does not pay the stipulated amount, the enterprise may cancel the contract immediately. Even if the enterprise does not exercise this right immediately, it must carefully consider what should be done. But under no circumstances should it have let the matter ride for 5 months.

[Question] Can anything be done against being carried away during bidding?

[Answer] The eagerness to compete can and should be curbed. Several enterprises have already adopted the practice of interrupting the bidding at the appropriate moment and announcing: this is the amount at which the business can still make a profit, according to our calculations. More drastic measures to curb the bidding should not be employed, because the entrepreneurs may have ideas that the enterprise did not take into consideration.

#### Professional Knowledge, Caution

And finally, let us hear what Miklos Sebestyen has to say. As chief of the Catering Industry Department within the Ministry of Domestic Trade, he has been able to observe many failures, but even more successful ventures.

[Answer] When we started the system of contracting, we knew that there would also be failures. The most frequent cause of failure is a lack of professional knowledge. Many people think that because they know how to brew coffee, they will also be able to run the business. The contract manager must know how to manage wages, raw materials, capital assets and costs. He must know how to calculate his prices and estimate his turnover. He must make provisions to pay his taxes and the stipulated amount.

[Question] Where are failures the most common?

[Answer] In the case of Budapest espressos. Many of the bidders believed that they would discover America there. They thought that nightlife was rolling in money. This is no longer true, because many businesses are now open until late at night. So far as the high bidders are concerned, the trade is expecting them to fail. Bidding is not a game of chance. It is a deadly serious economic venture.

[Question] And what will happen to those who owe hundreds and thousands of forints?

[Answer] They will serve as a warning example for those who will bid in the future. But the enterprises, too, have learned their lesson from the initial anomalies. In the second round of bidding for businesses, both sides are more experienced and more cautious. The enterprises now want a guarantee deposit from every bidder. Of course, the deposit should not be too much, so as not to exclude from the bidding good experts who are suitable to function as contract managers. With time, the competitive bidding will quiet down and become more settled.

Bankruptcies and business failures are unusual in Hungary, to say the least. Much is being said about ventures and risks, but we hardly think about the real meaning of these words. About the fact that if one takes a risk, he can not only win--he might also lose.

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CSO: 2500/140

IMPROVED MANAGEMENT NOTED IN AGRICULTURE

Budapest MAGYAR HIRLAP in Hungarian 3 Feb 83 pp 1, 4

/Article: "Enterprise Management in Agriculture Improving"

/Text/ Until recently, the agricultural director and the laborer working next to the machines regarded agricultural management as a sort of necessary evil. Since then, many have realized that rationally organized work reduces costs significantly. MTI sources report that as in industry, business and labor management are becoming increasingly important in agriculture.

Through intensive analysis of work processes, labor and business managers can uncover losses and create the necessary conditions to utilize formerly unused arable land. It is important to note how large farm managers have handled the affairs of the small producers: they are using their own methods in household farming with good results.

The business managers of the Nadudvar Corn and Industrial Crop Production Cooperative quickly realized that while it is harder for a large farm to effect rapid changes in fodder management, it can improve production in a relatively short time with systematically applied work. The goal of their initiatives was to devote the best fields to cereals and industrial plants, while the large quantities of hay would be grown on renewed and modernized meadows and grasslands. Last year the Nadudvar Red Star producer cooperative was able to increase cereal fields by nearly 1000 hectares by supplying the hay and silo needs of the large animal stock from the Hortobagy grazing lands. Similarly, the Lenin producer cooperative of Balmazujvaros was able to add over 500 hectares to the cereal lands.

Labor costs were effectively reduced at the Takacs beef-cattle farm of the Vaszar Hunyadi producer cooperative, where modern labor and business management methods are being used. Five physical laborers tend 5000 animals, whereas earlier such a work brigade would have handled only 500 cattle. At this modern farm, much work processes have been mechanized.

The work falls to two caretakers, while feeding, littering and manure removal are performed by three tractor operators. The troughs are filled by one

tractor out of the 4000-wagon-load capacity silos on the farm. The annual output of 550,000 quintals manure is bulldozed into ditches at the edges of the cattle-yards, from which it is transported in dump trucks directly to the fields.

On the Takacs farm, the production of cost of one kilo of meat was reduced by 16.60 forints, compared to the price of the earlier form of tending.

After many years of research, the Babolna industry-type corn production system last year started using over 3000 new containers for seed grain transport and for filling the seeding machines which was also a great help for enterprise managers. In the 30 member farms where seed grain packaged in containers is used, the rate of wheat sowing has increased significantly. The time to fill the most modern seeding machines from sacks had been 20-25 minutes; now this time has been reduced by half. In a 10-hour workshift, this saves 60-70 minutes per seeder, and thus production has increased by 12-14 percent. Sowing time can be better utilized while heavy physical labor can also be eased. These member farms rent the containers from the Babolna system, and thus spend less than the former annual cost of the discarded paper sacks.

The producer cooperatives of Zala megye have brought about close ties with 16,000 household farms. The managers of the large farms give equal attention to the small producers as they do to the complex and combined trade activities on their own lands. The Zala household farms are mainly concerned with animal husbandry, and thus this branch receives the greatest attention. For example, management has streamlined the buying, selling and pricing of fattened hogs and slaughter cattle to such an extent that the large farm's premium is divided with the small producers. According to this year's agreements, 34,000 fatted cattle will be sent from the small farms to the slaughterhouses. The producer cooperatives also rent unused building to increase production.

In Baranya megye, at the Nagypeterd Harmony producer cooperative, a new management system induces the production units to work efficiently and use production tools to their maximum capacity. In this system, all profits go "in their pockets." The crux of the new incentive system of interest is the units operate with a great degree of independence and solve their tasks almost like a separate enterprise; then they can keep a predetermined part of the profits, or can distribute them among the workers as a premium. Last year, this new form was in use throughout the 7200-hectare farm, with the result that profits rose to 35 million forints, twice the amount earned before the new system was instituted.



DEBT PAYMENT PROCESS ASSESSED

Warsaw POLITYKA in Polish 19 Feb 83 pp 4, 5, 6, 7

[Article by Marian Krzak; passages enclosed in slantlines printed in boldface]

[Text] The next stage of Poland's negotiations with Western creditors over arrangements for its debt repayment is approaching. Perhaps it will be different from previous stages. Official reports have come down that Poland intends to reach a comprehensive settlement, spreading out most of the payment over the long term in order to allow our economy to pull itself out of the crisis and thus earn money to repay the debt.

Why have we not been able thus far to conduct such a one-time, long-term operation? I believe that this question deserves an answer, especially since it has been raised many times in the press and in discussions, sometimes in an accusatory tone.

The POLITYKA-EKSPORT-IMPORT supplement carried an article by Stanislaw Gruzewski entitled "What Happens Next With Our Debt?" (No 8, 1982), in which the author summarized the critical views on this issue. Thus, in clarifying the question, I shall refer extensively to this article, since its charges are sharply and clearly stated.

I was unable to answer the charges made by Dr Gruzewski, a respected journalist, before now. There was no time, and moreover I was involved personally in ongoing negotiations, which resulted in three refinancing agreements, the last one in November 1982.

For these same reasons I did not answer publicly the articles written by the editor-in-chief of ZYCIE I NOWOCZESNOSC at the end of 1980 and beginning of 1981. He reiterated the arguments made by the chief economics expert of Solidarity, whose own views on this subject were published in TYGODNIK POWSZECHNY. Now however, since I have more time, I can make up at least in part for what I could not do before this time.

This does not mean that the issues have not been made public. The most complete explanation of the question is contained in Bohdan Kosinski and Jan Woloszyn's

article "Arguments and Disagreements," that appeared in ZYCIE GOSPODARCZE (No 23, 1981). The article is a rejoinder to some of the arguments set forth by Richard Portes that were popularized in Poland, especially by POLITYKA.

Unfortunately it often happens with polemics that facts are ignored and one becomes sidetracked from the actual arguments. I myself have encountered such cases many times. It is impossible to make sense of them. However, I shall try to do it again this time, for /I was right in the midst of financial matters, battling these problems every day, struggling together with my colleagues during a most dramatic period./

In Dr Gruzewski's opinion, right after the August events we ought to have "immediately started talking with our creditors about a one-time, comprehensive settlement that would defer our payments due within the next 3 years to after the year 1990. The most favorable moment for conducting such negotiations was September, October and part of November 1980." But in fact that was not done and we made no use of the trump cards we held at the time, for example, the settlement of social conflict through the August understandings, which I am told created a favorable frame of mind to Poland. The summer wave of strikes was viewed as an overwhelming force that justified our failure to hold to our payments' schedule. Due to these circumstances, it would have not been necessary to present a program of economic recovery, and the preelection atmosphere in the FRG, the United States and France would have actually facilitated talks, since the candidates who were running for office in these countries wished to uphold the climate of detente after Helsinki (sic!). [(sic!) appears in Polish text] This covers fairly well Dr Gruzewski's opinion about what we ought to have done.

I do not assume that Dr Gruzewski was under the influence of the views that proposed a moratorium, published in 1980 and 1981 in TYGODNIK POWSZECHNY and ZYCIE I NOWOCZESNOSC. I am aware that he is diametrically opposed to these views, and that he holds his opinions for other reasons. However, I cannot disregard what was written on this subject by Docent S. Kurowski in TYGODNIK POWSZECHNY in 1981: "The view that the moratorium is necessary is one that I expressed back in mid-September 1980 in a discussion published in T.P. [TYGODNIK POWSZECHNY] on 30 November 1980.... qualified financial experts headed by Minister Krzak announced that the moratorium is necessary, and that this very proposal is harming our economy.... Having wasted a half-year, today our financial experts are beginning to make the rounds of Western countries to ask that our schedule of payments be deferred. However, they are not using the term 'moratorium,' but speak of 'refinancing,' which means the same thing, but more expensively (for us)"(TYGODNIK POWSZECHNY, 15, 1982).

S. Gruzewski attacks someone else personally, but writes: "Those responsible for this tremendously important sector of the economy simply lacked imagination."

I did not compare the quotes from S. Gruzewski's article and S. Kurowski's article to manipulate the reader. In the end, the essence of things and not the person who presents the issues is the determining factor. However, both Dr Gruzewski and before him Docent Kurowski got their facts wrong. They simply did not think it necessary to verify them.

## How Things Were in 1980

What are these facts? /The process of restructuring the repayment of the PRL [Polish People's Republic] debt began before 1981./ It was already clear in the second half of the 1970's that it would be impossible for us to repay our debt according to schedule without refinancing or a moratorium. During the closing years of the 1970's, each year we received greater and greater amounts of short-term credit, primarily to buy grain, whose repayment was concentrated within the years 1981 to 1983. That is why in the spring of 1978, negotiations got underway to obtain long-term credit to cover the payments due the following year.

Among the credits we received in 1979 was our first large amount of credit from private banks in the amount of \$550 million. This enabled us to refinance a considerable portion of our repayments. At that time it was assumed jointly with our creditors that this operation would be repeated several times, to relieve us of our 1981-1983 payments burden. Next, in 1979 we started talks with representatives of the French government to refinance our entire guaranteed credits debt repayment due in 1980. It was assumed that the operation would also be repeated in this case. I quote here the previously mentioned experts B. Kosinski and J. Woloszyn, who assessed this operation in the following way: "It appears that at that stage, the previously mentioned monetary credits, incurred for 7 or 8 years, with a few years' suspension, was the best solution...It gave us a chance to get through a difficult period.... From the viewpoint of the task of refinancing the repayment of obligations, one cannot find fault with this practice. Everything depended upon the effectiveness of domestic economic policy, which was to ensure the rapid, considerable improvement of the trade turnovers balance. However, this sphere was already beyond the reach of the workings of finances."

In the first half of 1980, in addition to the French operation, two other operations were negotiated: a credit of 1.2 billion West German marks and a credit of \$330 million granted by a consortium of private banks to cover repayment due in 1980. Thus, the deferment of our debt was already in progress. What was unfortunate was that as financial experts were trying to solve the repayment problem, others--and Dr Gruzewski knows very well who, for he wrote about it himself--stepped up their efforts in the direction of making credit purchases of grain, machinery and equipment, semi-finished products and the like, furthering deepening the critical state of our balance of payments./ Why such incisive action was possible is another subject. It is due to a system of management that facilitated this sort of process and a domestic situation that applied pressure in this direction. However, since I do not wish to digress from the subject, let me say only that since 1973, there has been no year--and later no month--in which the Ministry of Finance did not attend to the worsening payments balance (See S. Jedrychowski, "Zadłużenie Polski w krajach kapitalistycznych" [Poland's Indebtedness to Capitalist Countries], Warsaw 1982). /On the other hand, the ministry had no impact either upon the volume or upon the structure of these credit purchases./

However, let us return to 1980. In that year, before anything had happened, the Ministry of Finance had the idea to settle the issue of indebtedness

comprehensively through a long-term arrangement. This idea became concretized in the active contact that was maintained especially with the then chairman of the so-called Paris Club--Mr Haberer, a high official of the French Ministry of the Economy and Finance. The Paris Club is an ad hoc assemblage of creditors, generally governments, appointed to examine the consolidation and deferment of the debts of states-debtors.

I led the first talks at the end of July/beginning of August 1980. At that time, I posed the question of the comprehensive settlement of our debt repayment to Mr Haberer. He promised to give me an answer in September 1980, after he had consulted with the representatives of the other interested Western states. The answer came in October 1980. Meanwhile, we had been trying to convince the government of the need to make such a move, not an easy task in itself. Thus, the Ministry of Finance did not lack imagination, nor was it blind to reality. We wracked our brains over this reality many a time.

The next meeting took place in October. At that time we discussed the comprehensive resolution of the debts issue in more concrete terms. An operating schedule of negotiations was laid out; they were to run through December 1980. /Obviously, these had to be secret talks. Revealing them could have destroyed the possibility of finalizing negotiations over large refinancing credits with private banks./

Unfortunately, the implementation of the operating schedule worked out with Mr Haberer was disrupted. After a brief letup in September, the domestic situation became more and more tense. That was the period of the registration issue of the Solidarity statute. Hysteria over Poland began to develop in the West. Keep in mind how television programs and the Western press at the time graphically described what would happen with us some day or month soon. It was likewise the preelection period in the United States. The previously mentioned /Prof Portes wrote that U.S. elections are not a favorable circumstance for Poland, and Dr Gruzewski saw them as a trump card! For 2 years, Western political analysts declared a shift to the right in Western governmental spheres--and that shift was our trump card?!/ Of course, the July-August strikes were recognized as an overwhelming force, but not overwhelming enough to give us the payments--enough only to enable deferment of our debt to be considered. Finally, the outbreak of strikes all over Poland in the fall began to disturb our Western partners. What made this all the more true was that they did not understand why we were paying for the strikes, why, in such a difficult situation, we allowed the burden on the state budget to increase while revenues dropped. The payment demands were exorbitant! They knew everything and sensed their partner's weakness!

It likewise became clear in October that a total disaster had occurred in farming. Poland, a sugar exporter, had to import it. The potato harvest was the lowest since the beginning of the 1950's. We had to consider importing potato starch because the pharmaceutical and light industries were coming to a standstill, not to speak of the food production industry. The measures taken to import other products became indispensable, especially since export suddenly began to dwindle. We were stuck in this financial hell, while our



debts mounted daily as our export declined. It was then that Dr Gruzewski thinks we ought to have negotiated a moratorium. How?!

Of course, /we could have considered either announcing our inability to pay or warning of it./ The consequences of such a move, given the existing internal situation, would have been lamentable for import. Hence the realization that we had to complete refinancing operations undertaken earlier, which meant signing an agreement with the FRG for credit amounting to 1.2 billion marks and renewing an agreement with France to refinance payments due in 1981, since our other partners were not willing to talk. In November, only France was ready to talk with us. Later Carter, having already lost the election, promised to expand guarantees for new grain credits through the CCC [Commodity Credit Corporation] amounting to \$500 million. This was quickly done. Then, in the fall, the United States asked whether we were planning to call for a moratorium, and if so, the CCC guarantees would become impossible. Were we supposed to say then that we were announcing a moratorium?

We continued to pressure our partners to start talks on a comprehensive settlement. These talks began at the beginning of December. Just before the holidays, a plenary session of the Paris Club was held. At the same time, we initiated a meeting with the representatives of private banks, who made their position contingent upon the positive results of the Paris talks.

#### Why Refinancing?

Beyond concluding individual refinancing operations that involved considerable sums, in the fall of 1980 we succeeded in conducting negotiations only with France and in initiating multilateral talks with government representatives. In these talks we /called for the deferment of our entire debt repayment from the 3-year period of 1981 through 1983 for at least 10 years. Thus, already at that time we had proposed the conditions that critics wrote of later./ However, these demands clashed with the position of Western government representatives, who flatly rejected a refinancing period exceeding 8 years. We were told that a longer period of refinancing exceeded the legal limit for guarantees and the limit established in multilateral agreements made by the OECD. Longer periods may apply only in the case of backward countries within the framework of so-called assistance for the Third World. As for deferring the payments due for the 3-year period, the position of our partners was more flexible. However, they firmly agreed that first the issue of obligations due in 1981 should be resolved, given the element of uncertainty. We also had to submit a report on the economy.

The talks were dramatic and lasted a very long time; they were conducted both multilaterally and bilaterally. Finally we agreed to an 8-year period of repayment and a 4-year suspension. It was also established and expressed in the Paris agreement that the operation would be repeated for the next 2 years and each time the conditions would change, by which we clearly understood that the terms would be more favorable for Poland.

Did we have the option to reject the principles of the agreement arrived at by the negotiators? Yes, we did. In 1981, we could have suspended payments

and demanded long-term, comprehensive solutions. Would there have been any advantage in doing this? /Banks and institutions guaranteeing credits cannot grant new credit until the payment of old credit is settled by written agreement./ This is both dictated by law and logical. Thus, we first had to count on losing the substantial credits that had already been negotiated. Next, moratorium negotiations as a rule last for many months, sometimes even a year. To cut back at that time on imports radically would have been a disaster. Most of our imports were financed on credit. What assurance did we have that before we reached an agreement, our creditors, who were becoming more and more nervous and financially weaker and weaker, would not break down and begin to take our meagre foreign-exchange funds and our foreign assets? They could do this at any time, without waiting for us to declare our inability to pay. We have no foreign-exchange outside our banks; we do not bring it in in sacks. We hold it in the form of due notes in foreign bank accounts.

To prove this, I am including the following table that shows our balance of payments from 1980 and the first quarter of 1981 for the critical item of our goods export and import turnovers (in millions of dollars):

Table 1. Poland's Export and Import Turnover Payments Balance for 1980 and the First Quarter of 1981 (in millions of dollars)

<u>Period</u>	<u>Export Income</u>	<u>Import Payments</u>	<u>Balance</u>
The Year 1980			
1st quarter	2177	2276	- 99
2nd quarter	2082	2129	- 47
3rd quarter	1868	2340	-472
4th quarter	1888	2011	-123
The Year 1981			
1st quarter	1499	2144	-645

The table shows that in the second half of 1980, there was a clear breakdown in export income, which normally rose at that time of the year. Meanwhile, the internal situation demanded that we import goods, particularly food. Near the close of 1980, we received substantial Soviet aid (not subject to repayment) in free foreign-exchange currencies in the amount of \$500 million. This covered only a portion of the negative balance from the fourth quarter of 1980 and the first quarter of 1981. The Soviet help improved our liquidity considerably, but it was not enough. Had we adopted a policy of comprehensive moratorium negotiations, obtaining further credits would have been out of the question and our income would have continued its decline, since some of our export income would have been blocked. This would have occurred at least during the period of negotiations, which the interruption of payments would have forced, there being no other way. Consequently, our first quarter 1981 imports would have probably been less than half of what they were in actuality.

In entering into talks on refinancing, our primary motive was to free the Polish economy of debt servicing and to increase its import funds.



The ultimate effect of refinancing in 1981 was that our export income from free foreign-exchange turnovers was \$5.482 billion, and our import expenditures amounted to \$6.233 billion. Import expenditures exceeded income by \$751 million. In 1981, we obtained a total of \$4.9 billion worth of direct credit and \$1.8 billion worth of refinancing credits. This allowed us not only to repay the indispensable installment payments due on our debt, but enabled us to cover in full the interest, to finance import payments and to halt the decline of short-term deposits by the not insignificant sum of \$839 million. /Thus, the result of these financial operations was that the Polish economy in 1981 incurred no debt, but on the contrary, was bolstered from the outside. A similar situation had occurred in 1980./

I believe that it is that situation in 1981 that Prof Bobrowski had in mind when he said in an interview for ZYCIE WARSZAWY (11 September 1981): "On the other hand, the government resolved the balance of payments question more than adequately. Some irresponsible journalists dreamt of a 10-year moratorium on principal and interest repayment.... It worked out better than consortial arrangements implemented in other countries."

I am firmly convinced that a move made in September or November 1981 to force negotiations to defer Poland's debt repayment by 15 or 20 years would have had a very unfavorable impact upon the economy and the country's political situation. It could have been only a one-sided move, resulting in the following as described by the previously quoted Prof Portes: "A unilaterally proclaimed decision declaring our inability to pay the principal (or) interest on our debt, even for a limited period, is tantamount to declaring bankruptcy with all of its immediate and irreversible legal consequences: the availability of any further financing credits is cut off as is import from free foreign-exchange markets, Polish ships and goods are seized and the like."

/Such a decision would have been financial suicide. It would have meant the undermining of the state's credibility whose continuity was ensured by the new government. It would have meant also the breakdown for many years of a system of developed financial relations and accounts cleared in turnovers with the West, the bankrupting of Polish banks abroad and the paralyzing of operations of Polish firms and trade representatives in Western countries./

/That is why we rejected any proposals of this type./

There is no doubt that this sort of step also would have to have a negative, long-term impact upon the financial relations of the other socialist states with the West.

There is also the question of the costs of such an operation. Dr Stefan Jedrychowski writes: "In our negotiations thus far, there has been no talk of reducing the interest upon our existing debt or on applying reduced interest on our refinancing credits designated to cover the payments currently due..."

Of course, the question of applying a low interest rate was posed in negotiations. This is one of the most important problems of our indebtedness, since our annual interest amounts to more than \$2.5 billion. A reduction of

interest by even a fraction of a percentage point means billions of zlotys, and is thus something to fight for. Unfortunately, when refinancing was negotiated, the use of the formulas written of by Dr Jedrychowski was rejected. Poland is not considered to be an underdeveloped country and thus fails to qualify for a low interest rate. For such countries, the reduced rate by comparison with the market rate is financed out of the budgets of highly developed countries. On the other hand, an interest rate reduction on export credits is largely illusory. Normally, the reductions are covered by the budgets of the states backing the export, while they are compensated by taxes and reduced outlays for social goals. The importer buying on credit (usually capital goods) pays for the costs of reduced interest in the price of the goods. We have had this experience, particularly when we obtained credit from banks to import finished products. The interest rate on these credits was usually low, but the banks received high brokerage fees from the exporters to cover their costs.

I am personally of the opinion that /we should not spread the illusion that the West offers disinterested help to Poland. In their financial dealings, the representatives of Western states have always been motivated by cold calculation and they have always demonstrated a greater or lesser degree of distrust of us./ They proved this during the prewar years. One needs only to read the memoirs of former treasury ministers, for example, W. Grabski, to learn that even when the Polish state was born with a political outlook that was similar to that of Western states, our governments were never able to obtain the financial assistance they needed from Western states.

This is not to say that we should not exert pressure to attain the proper cooperation between Western states and banks to settle Poland's debt. On the basis of this premise, we have obtained terms no worse than the best terms granted to other states. The refinancing terms obtained by Romania and Yugoslavia were no better (they were worse), not to speak of such countries as Turkey, Brazil and Mexico.

When we signed the Paris agreement with governments, and later the Frankfurt agreement with private banks, premises were created for our surviving a difficult period. A bridgehead was likewise established for negotiating the favorable refinancing of our debt in 1982 and 1983. Having in mind a long-term solution to our problem of indebtedness, we joined the International Currency Fund, realizing that with the help of this UN-affiliated organization, Poland would resolve its payments problems more successfully, it would obtain a longer-term solution and, most importantly, the costs of debt servicing would be reduced. The only real chance for reducing interest costs is through the help of international organizations and through the cooperation of the governments of states-creditors.

The reactions of Western governments, and particularly of the American administration to the imposition of martial law showed that we cannot count on the disinterestedness of Western states. The rightist tendencies of the leadership circles in Western states had the upper hand. The imposition of economic sanctions was an especially ignoble deed. It was directed at a state whose government was supremely motivated by reasons of state. The exertion

of pressure upon the authorities of the International Currency Fund, hampering Poland's admittance into this organization was a disgraceful deed.

Situations cut both ways. Western governments refused to continue the debt refinancing negotiations that had been started up in 1982. Consequently, it was not possible to collect the debt servicing due on guaranteed credits, or to execute the Paris agreement. Thus, our debt payments were not made and those who refused to talk were not paid their interest.

Meanwhile, negotiations quickly got underway with the representatives of private banks to refinance the payments and interest due in 1982. The private banks held a different attitude to the development of the situation in Poland, and to be frank they tacitly approved martial law. An assertion made to me in spring 1982 by one of the directors of one of the world's foremost private banks was symptomatic: "Mr Krzak, I want to tell you that our bank is older than Mr Reagan, was in operation before he was born and will be in operation after his presidency is finished. It will be guided in its operation by the principles used before with regard to Poland--the principles of mutual interest. The views of the head of our bank regarding the situation in Poland differ from those of President Reagan."

Thus, the interests of private banks and governments are not identical. While this is clear, we must be fully aware of the issue from the viewpoint of mutual interdependence.

After the imposition of martial law, there continued to be no attempt to obtain a moratorium, although I know that there are those who believed that this should have been done. A Polish moratorium would not have broken down the worldwide credit system, but rather would have enabled Poland to save tens and hundreds of billions that were stuck in Brazil, Mexico and Argentina. At least that is what was made clear to us.

Talks were resumed with the representatives of more than 500 of the world's largest banks who had invested credit in Poland. An agreement was finalized in November 1982 in Vienna. /It enabled us to attain better results than before./ We were able to defer 100 percent of our credit repayments due in 1982 and the banks were paid about 30 percent of the 1982 interest; the rest was compensated by revolving credit granted for 3 years on 50 percent of the interest, with the remainder deferred to the first half of 1983. In this way, the burdens borne by Poland in 1982 due to debt servicing were lightened.

What did this mean in monetary terms? Our fixed payments, i.e., our installment payments plus interest, totaled \$2.1 billion. We obtained credits of approximately \$1.5 billion, so that in effect our liabilities equaled about \$600 million. This sum is less than one-tenth of the apocalyptic sum arrived at by some "experts" who calculated our balance of payments liabilities due to debt and interest payments. Once again they have calculated that this year we will have to repay about \$10 billion, the amount due as a result of the formal obligations we have from old agreements. But since 1979 the situation has changed, with the biggest change coming in 1981, when the first refinancing agreements were concluded. Since our creditors have already put through such

operations once, it is clear that they will have to be undertaken in the future as well. This means that the old terms will not apply, and that new terms will be set up according to the real possibilities of debt servicing.

Thanks to the Vienna agreement, the credit embargo effectively called against Poland was dropped, and for the first time, banks worked with Polish negotiators to find a way to defer the payment of interest as well. Before this, it had seemed impossible. Now, the precedent has been set.

The year 1982 is behind us. /It was a crucial year from the viewpoint of our balance of payments./ For the first time since 1971, Poland finished the year with a credit balance in payment turnovers for goods trade. We are finally living on our own account, and not on a foreign one. It is an extremely promising start. The amount of short-term credits has dropped radically; its level exceeds only slightly the level reached at the end of the 1960's. Our debt structure has improved.

Given the preceding facts, the most painful issue is that of restrictions on the level of supply import. However, it appears that import volume has bottomed out and in 1983 there should be a growing trend. The drastic reduction of imports in 1982 was only partly the result of debt servicing. The import reduction was partly the result of a change in the accounting principles used by our enterprises in dealings with Western exporters. /The dramatic payments situation of Poland led our suppliers to demand that contracted-for transactions be covered by cash in advance./ Hence, despite the fact that the Trade Bank had allotted foreign-exchange funds for import, the goods began to arrive late. This change in the accounting system cost us at least \$300 million of imports in 1982, but it affected the level of our import only once. It was something we had to go through, if painfully. However, beginning in 1983, our import should grow at a rate nearly parallel with export.

What Next?

If one helps oneself, he receives the help of others. This likewise applies in international relations with foreign countries. /However, we have a special ability to blame others for our own problems./

If the entire campaign to reduce our debt liability is to succeed, it is indispensable that we increase export systematically. Export growth increases generated national income, it means the utilization of production capacities and it means a place on the world market. I could never understand the "import less, export less" mentality, which seemed to me to be the hornblowing of a naive economy in a situation where everyone knew that the greatest successes were achieved by those countries that did just the opposite. That is why I am shocked by a statement made by editor Gruzewski. I refer to his idea that the opinions of those who do not take a tragic view of the debt issue "... are totally wrong and attest only to their lack of knowledge of the realities of the Polish economy, and in particular (emphasis mine) /to its chronic inability to expand export./" What are we supposed to do? Are we supposed to give up? Are we to beg others for mercy, since we cannot afford to export?



Perhaps I seem to be resorting to slogans, but I believe that /the inhabitants of Europe who live between the Bug and the Oder are not doomed to everlasting failure./ It is true that we have a more difficult time managing than others, for we have not had our statehood for a long time and the vestiges of a nobility mentality are still with us. We have never had the right sort of market, as other countries do. We are not a wealthy country, but Bulgaria and Hungary, who are no richer than we, have managed to change radically their system of trade turnovers, over the course of a year attaining an improvement of a billion dollars each in their foreign trade balance. We were able finally to do the same.

In the past 2 years I have often encountered the idea that "if we want to export, we first must import." I could not understand it, especially since this idea has been in practice for the past decade. We must do the reverse: export first. This is not my own idea. I quote the very vital, but not sufficiently appreciated statement of General W. Jaruzelski, made at the Tenth PZPR KC [Central Committee] Plenum, a statement that was not without a certain note of disappointment:

"Export is an extremely important problem. It has not been given sufficient attention during our deliberations. This is understandable in a certain sense. The awareness of the severe weakness of the market and the resultant socio-political consequences encumbers this question. However, we must never cease to remember that there is a close interconnection between the country's economic situation, the market situation and what we are able to export. Export is at once our ability to import--it is our production potential, and production is likewise market supply. That is why it is so crucial that we strengthen the export-oriented character of our economy, at the same time explaining to society the significance of this activity from the viewpoint of market needs as well. The levers of reform and the corresponding state actions must pave the way for movement in this direction and support it."

We are lagging behind in selecting export-oriented subbranches and in setting up programs for their development, using export efficiency as a criterion for selection. We have not yet done everything possible in the field of the economic system. It is still subject to too much free choice and arbitrary selection, and does not make use of mechanisms enough. Exporters are particularly annoyed with the lack of a consistent enough pricing policy and the failure to use transaction prices.

This is not to say that the settlement of the repayment problem is not essential. Everything possible must be done to minimize the impact of debt servicing upon the current situation. I believe that the success of negotiations is contingent upon a realistic assessment of what has been done thus far and what remains to be done in the future on this score. All is not black and white here, just as there are not just two ways of restructuring our debt. Dr. Gruzewski writes that "refinancing under our present conditions is a road to nowhere. Over 9 years, the cost of interest alone amounts to the exorbitant sum of \$33.8 billion." I do not believe that the methods of settling repayment used thus far are ideal. We have always treated them as interim solutions

until our domestic situation has stabilized and we become a member of the International Currency Fund. In any event, I do not know on what basis he calculated that our refinancing cost over 9 years amounts to the enormous sum of \$35.8 billion.

The table constructed by Dr Gruzewski has no basis in a factual analysis of the results of our method of refinancing. The year 1982 is the best example of this. Let us compare the actual results of refinancing with those given for 1982 by Dr Gruzewski.

Table 2. A Comparison of 1982 Refinancing Results (in billions of dollars)

<u>Item</u>	<u>Export</u>	<u>Import</u>	<u>Credits</u>	<u>Servicing</u>	<u>Payments</u>	<u>Interest</u>	<u>Net Liability</u>
1982							
S. Gruzewski's							
Figures	5.8	5.8	-	5.3	2.8	2.5	(2.5?)
Balance of Payments							
Figures	5.0	4.6	1.5	2.1	0.5	1.6	0.6

The economy's real liability in 1982 was \$0.6 billion. According to the figures given by Dr Gruzewski we can only guess that he includes \$2.5 billion in interest as a refinancing cost. However, it is not clear who bore this cost. Given our zero balance in goods turnover, no one in Poland could cover it. On the other hand, if Dr Gruzewski believes that this servicing cost, which was not covered, is a cost to the economy which is charged for it--he is under an illusion and is misleading readers. An unpaid installment payment or interest payment is not a real liability; at most it is a growing debt. If we are to make assessments and judgments in this way, the consequences both for our economic program and for the methods we have adopted to resolve our debt problem may be tragic. Hungary, Yugoslavia and Romania have used methods similar to ours to settle their debts.

Thus far I have concentrated solely upon the problem of debt servicing in 1981 and 1982. Now I would like to take the opportunity to set straight any fabrications that I have come out in favor of a more expensive future settlement of the debt issue, while others proposed a cheaper one. /I did not propose any kind of more expensive or cheaper future settlement to anyone, so no one can make reference to any such settlement./

Having said this, I wish to add that only the interest rate and the debt repayment period can determine a more expensive or cheaper settlement of the debt issue. A higher interest rate means a higher cost. A longer period of repayment reduces our burden for the time being, but increases the total costs of debt servicing. These are the simple rules. In my opinion when we consider the issue, we must take into account:

--the fact that a drop in the interest rate is impossible without the cooperation of international organizations and governments, since private banks are



motivated solely by one rule: they must cover the costs of deposits and make a profit, and so the market determines the interest rate;  
--that creditors must be persuaded and it must be demanded that they act to make Poland a member of the International Currency Fund; Poland's admittance to the MFW [International Currency Fund] lies in the interest of creditors and will foster the normalization of payments turnovers worldwide;  
--that governments ought to withdraw all sanctions imposed against Poland, since this creates an obstacle to debt servicing.

/One thing is certain: it is both in the interest of Poland and in the interest of its creditors to prevent the debt servicing of our country's debts from having too great an impact upon our economy. Consequently, it is essential that the problem be settled in a manner that allows us to get out of our crisis more rapidly and thus enables the circumstances of optimal debt servicing to arise./

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CSO: 2600/435

## ECONOMIC COOPERATION BETWEEN CROATIA, MONTENEGRO

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 9 Feb 83 p 8

[Article by J. Grubic: "New 'Areas' Are Opened"]

[Text] The Pooling of Labor and Resources of the OUR's from Croatia unfolds slowly in the developmental programs in the region of Montenegro, although it could not be said that the activities of associated labor, of its associations and of the organs of socio-political societies are absent. The meeting of the two republics' economic delegations, held recently in Zagreb (Milivoje Lavsevic, a member of the Executive Council of the Montenegrin assembly and Mico Glecic, a member of the Executive Committee of the Croatian Economic Chamber headed the delegations), is one in a series of contacts, which otherwise organizes inter-republic cooperation. In it were discussed the difficulties in carrying out the self-management agreements hitherto concluded on the association of part of the means of the Federal Federation for the Supplying of Credit for the Rapid Development of Economically Under-developed Regions of the Country, as well as on the joint interests of some of the partners in enlarging Montenegro's economic structure.

Three agreements were concluded in the areas of agrocomplexes and the construction material and paper processing industries. New possibilities were pointed out in the metal processing industry, the storage and packaging of construction material, lumber processing, tourism, etc.

The basic reasons for the fact that only 3.5 percent of Croatia's obligation toward this republic until 1985 has been engaged in the last 2 years must first be sought in identical developmental investment problems, in the large external debt, in the investor's own insufficient additional means. They must also be sought in the regulations concerning the measures by which one can invest in programs developed from the means of the fund belatedly passed in Montenegro. The procedure for consenting to OUR self-management agreements concluded are complicated enough (the Executive Council has the final say after opinions are gathered and positions taken in the Montenegrin Economic Chamber). In addition, full agreement does not exist between planning documents and its communes, especially those less developed ones which otherwise have priority in investment, etc.

But with all of this, "Agropogon" of Ulcinj, "Montenegro-Turist", Bjelovarsk vrt", "Tvornica stanova" in Spuz, GRO Titograd, "Adriagradrja" of Rijeka, Titograd's "Obnova" and "Belisce" have found a common language. It is also expected that investors will enable the Croatian metal processing industry to include itself in the further developmental programs of "Zelezara" in Niksic and of the aluminum combine in Titograd. By this, it hopes to satisfy its own needs in the corresponding metallurgic interphase products for joint expansions and financing in the world markets. With regard to the fact that Danilovgrad has ceased to be the site for a bi-metal tape factory, "Tvornica lezaja" in Kotor, which is its investor, will in a short while surely work out a way with Karlovac's "Jugoturbin" to accomplish that program. In this way conditions are harmonized for the realization of the program to construct cellulose and paper factories in Ivangrad, the SIK "Velimir Jakic" in Pljerlje, the "Brskovo" lead and zinc mine in Mojkovac and tourist installations in Orjen.

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CSO: 2800/150

## FERRO NICKEL PLANT IN KOSOVO

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 4 Feb 83 p 5

[Article by B. Arifi]

[Text] Yugoslav associated labor has succeeded in a relatively short time to construct a ferro nickel factory in Glogovac, one of the largest economic projects not only in Kosovo, but also in the country. This is the work of the builders of Trudbenik, Gosa, Ramiz Sadik, Vijadukt, Hidromontaza, Beton, Veletrgovina and other organization of associated labor which have constructed in the immediate vicinity of the "Cikatovo" nickel mine, the smeltery's enormous buildings. The first tests will begin by the end of March of this year. Electro-furnaces from Norway, roto-furnaces from Denmark and converters built by the Krupp firm will begin to hum in June of this year. This will mark the beginning of the operation of this large Kosovo and Yugoslav economic installation.

### The Path to the Smeltery

The Cikatovo mine has begun production and Glavica is in the preparatory phase. All the equipment has also arrived. Gas, oxygen and water must be secured by 31 March and then the first so-called cold-testing of production will begin. All of the rest of the work will be completed by then.

The first explorations for nickel ore began two decades ago in the vicinity of Glavica at Magura. Geological surveys in 1961 yielded positive results, and the communal assembly of Lipljan in 1963 decided to establish a nickel mine by constructing Magura. In 1965 the Commission for the Verification of Mineral Resources of the Serbian Republican Secretariat for Industry certified the estimated reserves at 6.3 million tons.

The Magura nickel mine joined the large family of Kosovo's thermoelectric plants and in 1968 began to accelerate exploration. In 1969 the Cikatovo nickel deposit was discovered whose reserves in 1970 were estimated at 11.3 million tons.

Technological research was carried out parallel to the exploration for nickel. The Gipronikal Institute of Leningrad drew up in 1971 the smeltery's construction plans on the basis of an agreement concluded earlier.

The Rudarski Institute in Belgrade worked out the blueprints for the Glavica mine in Goles and the Cikatovo mine in Glogovac. But, it has not stopped here.

The work organization in the establishment of the mines and Feronikal smeltery was formed in 1974 within the structure of the REMNK Kosovo. Exploration, planning, the securing of financial means and the agreeing on equipment were then continued. The financial arrangements for this project's construction was signed between Eksimkosa, the Kosovo Combine and Poland in 1975, and so were secured the means for domestic investment.

The smeltery's construction began on 23 May 1979. This giant's completion was predicted for June 1982, but because of a shortage of domestic financing, the period was somewhat prolonged. It is thought, however, that the smeltery's construction will be completed on time, keeping in mind, the type of structure in question. It is anticipated that the mines' and Feronikal smeltery's work organization will employ around 2,000 workers. Some 1,090 men will find work in just the smeltery, where 515 are already employed. When regular production begins here, 52,160 tons of ferronickel will be produced and 12,000 tons of nickel and cobalt will be turned into ferronickel.

#### The All Yugoslav Competition for Experts

Kosovo's economy has invested a large amount of construction of the smeltery in Glogovac, aided by the Federal Fund of the Federation for the Faster Development of the Under-developed Regions and the International Bank for Reconstruction and Development in Washington. It is estimated that in the first phase of work a profit of 90 million dollars will be realized which is almost as much as the entire annual export of Kosovo's economy. Most important now, however, is to secure top-flight experts to work in this collective. This is discussed vocally in the collective.

Soon an all-Yugoslav competition will be scheduled for still 30 of the most eminent experts to work in the smeltery. For such experts in the country, will be secured the construction of houses in Glogovac and other benefits. This is necessary at the beginning of this Yugoslav giant's operation.

Furthermore, it is said that in similar smelteries and foundries in the country 112 workers will receive advanced training. In foundries in Skoplje, Zenica, Smederevo and in factories in Zvornik and Jajce, 278 workers are being trained and there are plans to send 204 workers abroad for specialized training. 94 workers have been trained up to now. Special attention will be paid to the education of cadres and more, because without good experts this great Kosovo and Yugoslav giant cannot function well and profitably.

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